

AR39



AEROQUIP CORPORATION

Annual Report

FOR THE YEAR ENDED SEPTEMBER 30, **1965**

AN EDITORIAL



A TWENTY-FIFTH ANNIVERSARY is a fitting occasion to reflect upon the roots of our success, and to extract from our experience some of the essence which explains why the Company has progressed.

While no single element by itself has generated Aeroquip's growth, there has been one prevailing attitude, conscientiously fostered by management, which surely has been a prime stimulant. It is characteristic of Aeroquip's operations that all employees are imbued with an understanding that every job, whether it is large or small, is always significant, that many others throughout the organization depend upon the efficient execution of each person's individual assignment.

The Year in Review

<i>Fiscal years ended September 30,</i>	1965	1964
Net Sales	\$85,867,449	\$77,257,179
Earnings before Taxes	\$ 8,178,943	\$ 8,136,671
Taxes on Income	\$ 3,750,000	\$ 3,950,000
Net Earnings	\$ 4,428,943	\$ 4,186,671
Earnings per Share*	\$ 2.93	\$ 2.77
Cash Dividends Paid**	\$ 980,580	\$ 800,285
Working Capital	\$21,041,922	\$20,695,833
Stockholders' Equity	\$30,209,254	\$26,690,631
Book Value per Share*	\$ 19.96	\$ 17.68
Common Shares Outstanding	1,513,215	1,451,772

*Based on 1,513,215 shares outstanding at September 30, 1965, and 1,509,842 shares on September 30, 1964 which takes into account the 4% stock dividend paid in 1965.

**In addition, 4% stock dividends were paid in both years.

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NOW
29.1965

In retrospect, we see there are many “musts” which are imperative if an enterprise such as ours is to prosper.

We must strive without compromise to give our customers superior value and dependable service for their money.

We must be reliable as far as our suppliers are concerned, so they will feel confident Aeroquip deals fairly with them.

We must give our personnel compensation comparable to or better than other firms in our industry, together with a program of benefits which allows them to share in the Company’s progress.

We must provide the co-owners of the Company with a reasonable dividend return on their investment, as it is their capital and reinvested earnings which have provided, and will provide, the resources for growth.

We must serve as a willing participant in civic activities, assisting in projects that aid and promote the general welfare of the various communities where our plants are located.

After twenty-five years, Aeroquip is an established leader in its field, having consistently widened and diversified the scope of the Company’s products, markets, facilities and distribution. Aeroquip is proud to contribute jobs, quality products, engineering ingenuity, taxes, dividends and public service to the nation and its economy.

As for the future, uppermost in our minds is the fulfillment of the basic obligation we undertook when we started the business in 1940—to serve the best interests of customers, suppliers, employees, co-owners and the community. Our aspiration will always be to make Aeroquip an outstanding company with which to be associated.

Growth Index

In evaluating a company’s progress, consideration should be given to measuring performance over an extended span of time, as well as to the conventional year-to-year comparison. In this way, the realistic effects of new developments, which often exert their influence only after a long-term period, are more evenly weighed. This is also true of the sudden imbalance that is sometimes caused by abnormal business fluctuations.

Fiscal 1954-1965 Average Annual Performance Based On Three-Year Results

	<i>Average Annual Sales</i>	<i>Growth Index</i>	<i>Average Annual Net Earnings</i>	<i>Growth Index</i>	<i>Average Year-End Net Worth</i>	<i>Growth Index</i>
1954-1956.....	\$25,824,744	100	\$1,459,691	100	\$ 7,758,341	100
1957-1959.....	\$42,237,715	164	\$2,088,119	143	\$12,547,431	162
1960-1962.....	\$52,624,654	204	\$2,536,677	174	\$18,294,467	236
1963-1965.....	\$75,043,641	291	\$3,959,151	271	\$26,689,446	344

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Officers

PETER F. HURST, *Chairman of the Board and President*
DON T. MCKONE, *Executive Vice President*
B. A. MAIN, JR., *Vice President, Engineering*
WAYNE G. ENGLISH, *Vice President, Finance*
KENT R. MANNING, *Vice President and General Manager, Aircraft Division*
W. F. ROGGE, *Vice President and General Manager, Industrial Division*
J. M. VAN DAM, *Vice President and General Manager, Marman Division*
J. O. HEYWORTH, *Vice President and General Manager, Barco Division*
F. W. CORWIN, *Secretary*
F. M. DAVISON, *Treasurer*
D. A. RUMGAY, *President, Aeroquip (Canada) Ltd.*
H. W. KUNTH, *General Manager, Aeroquip G.m.b.H. Germany*
E. R. ZACHARIAS, *General Manager, Republic Rubber Division*

Directors

EDWARD ADAMS, JR., *President, National Bank & Trust Co. of Ann Arbor, Ann Arbor, Michigan*
FLOYD A. BOND, *Dean, Graduate School of Business Administration, University of Michigan, Ann Arbor, Michigan*
WAYNE G. ENGLISH, *Vice President, Finance, Aeroquip Corporation**
CHARLES HOLLERITH, *Consulting Engineer*
PETER F. HURST, *Chairman of the Board and President, Aeroquip Corporation*
B. A. MAIN, JR., *Vice President, Aeroquip Corporation*
DON T. MCKONE, *Executive Vice President, Aeroquip Corporation*
WALTER E. SCHIRMER, *President, Clark Equipment Company, Buchanan, Michigan*

* Elected October 20, 1965

AEROQUIP CORPORATION

November 22, 1965

To Our Stockholders

The twelve-month period ended September 30, 1965 was the fourth consecutive record year for Aeroquip Corporation, with net sales rising 11% and net earnings advancing 6%. With this high standard of accomplishment to guide us, Aeroquip enters its second quarter-century of operations.

Net earnings increased 42% in the fourth quarter of the 1965 fiscal year, amounting to \$1,452,477 as compared with \$1,025,347 in the same period of last year. From the very beginning of the fiscal year, stockholders had been advised that management was hopeful earnings for 1965 would reach an all-time high. This proved to be the case even though it was not until the fourth quarter that earnings began to exceed the prior year's results.

In the September quarter, the final three months of the fiscal year, net earnings were the best ever recorded for any quarterly period in Aeroquip's history.

Net sales also showed a pattern of improvement, totalling \$22,634,498 in the last three months of the year, a gain of 16% over the prior year's fourth quarter sales of \$19,554,525.



Don T. McKone, Sr.
1896-1965

As much as anyone, Don T. McKone, Sr. founded Aeroquip, and it was his leadership and counsel that contributed so importantly to the Company's growth over the years. As a Founder, as President, as Chairman of the Board, as a Director, Mr. McKone gave unselfishly of his energies and abilities. With his passing an era in our corporate history ends, but his accomplishments remain with us as a constant inspiration.

Jackson, Michigan

In January 1965, the Board of Directors increased the quarterly dividend rate to 17½ cents per share from 15 cents. It was the third time within an 18-month period that the quarterly dividend rate had been raised. In the 1965 fiscal year, the Company paid out dividends in cash and in stock having a combined value equivalent to \$1.71½, or about 60% of the year's per share earnings.

On September 30, 1965, working capital was at a fiscal year-end peak. Short-term debt was at a modest level, with ample additional lines of credit available to the Company. The relationship of inventories to sales was sound. All elements considered, Aeroquip's fiscal condition remains very strong.

All union contracts which came up for review in the 1965 fiscal year have been renewed. Management looks forward to an extended period of harmonious labor relations.

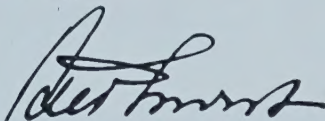
The 1966 Annual Meeting of Stockholders will be held on Monday, January 24, at 2:00 P.M. (E.S.T.) at the Company's executive offices in Jackson, Michigan. The record date for voting at the Annual Meeting is November 26, 1965. Registered stockholders as of the record date are being sent proxy material together with this Annual Report. It is requested that prompt attention be given to voting, signing and returning all proxies.

It is again a pleasure to extend our most earnest thanks to Aeroquip's customers, distributors, suppliers, licensees, employees and stockholders for their generous support and continuing cooperation this past year.

Backlog is presently at the highest level in the Company's history. We have many new products and product applications under development, and we expect that several of these will reach the marketing stage in 1966. Advances in technology and changing customer needs make it imperative that considerable time and money be invested in engineering activities. We know from experience that an uncompromising approach toward this phase of our business is important if we are to meet competition successfully and attain our long-term objectives.

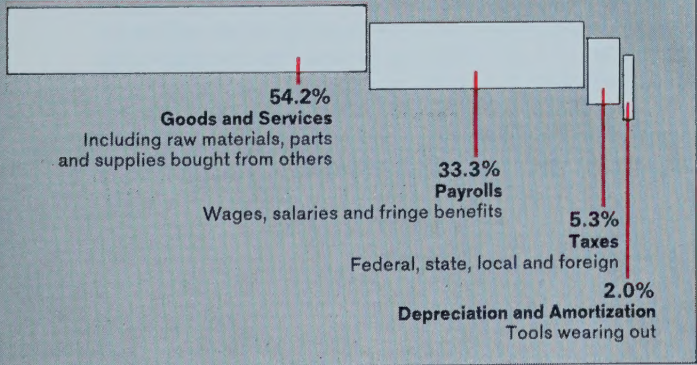
Prospects for the 1966 fiscal year are favorable. We look forward to a challenging but promising new year, one that could be another period of record-breaking results for Aeroquip.

Sincerely,



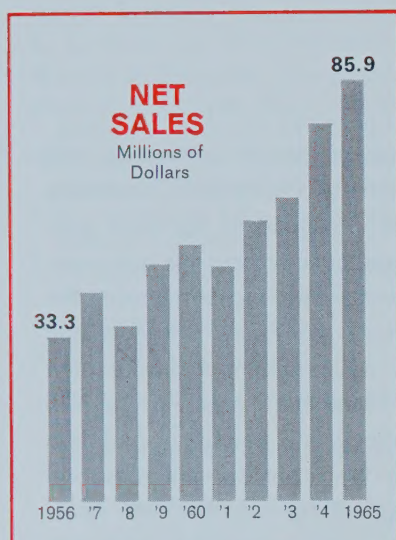
Peter F. Hurst,
Chairman of the Board
and President

DISTRIBUTION OF INCOME

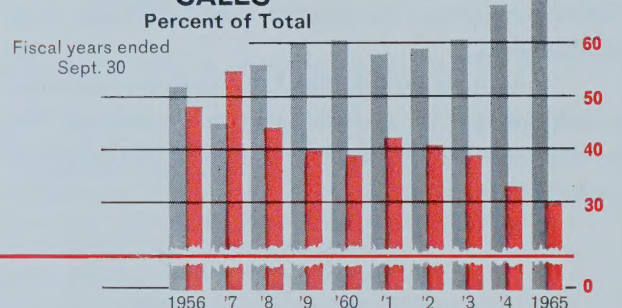


5.2% NET EARNINGS

of which
1.2% was cash dividends paid to stockholders and
4.0% was retained in the business to pay for
future progress



INDUSTRIAL Versus MILITARY SALES



Report on Operations

SALES

Record net sales in fiscal 1965 of \$85,867,449 exceeded the previous year's \$77,257,179 by 11%. Sales to industrial markets constituted 70% of the total, as against 67% the year before (\$59,811,866 versus \$51,994,081). While military sales accounted for a lesser percentage than in the prior year, the dollar volume of sales to these markets was more than \$790,000 greater than in the 1964 fiscal year.

EARNINGS AND TAXES

Earnings before taxes on income in the twelve months ended September 30, 1965 were \$8,178,943, as compared with pre-tax earnings of \$8,136,671 in fiscal 1964.

Despite stronger competitive pressures, which in many cases prevented reasonable price adjustments to offset rising costs, strict control of operating expenses enabled the Company to realize 9.5% of net sales as pre-tax earnings.

Provision for U. S. and foreign income taxes of \$3,750,000 amounted to 45.8% of pre-tax earnings reflecting among other factors the reduction in corporate income tax rates which went into effect during 1965. In fiscal 1964, the corporate income tax provision was \$3,950,000 or 48.5% of pre-tax earnings.

Net earnings for the fiscal year ended September 30, 1965 were a record \$4,428,943, or 6% higher than fiscal 1964 net earnings of \$4,186,671. Net earnings were equal to \$2.93 per share on the 1,513,215 shares outstanding at the close of the 1965 fiscal year, as against \$2.77 per share the year before based upon 1,509,842 shares outstanding as of September 30, 1964 (adjusted for the 4% stock dividend paid in 1965).

All-time highs in per share net income (adjusted for stock dividends) have been achieved in each of the last four fiscal years.



NEW IN 1965 . . . This 24,000 square foot expansion of Aeroquip's Jackson plant was completed in October, 1965.

DIVIDENDS

In January 1965, the regular quarterly dividend was raised, for the third time within 18 months. The new rate was 17½ cents per share. A year earlier, in January 1964, the quarterly dividend rate had been increased from 12½ cents to 15 cents. Payments had been advanced to 12½ cents from 10 cents in July 1963.

Cash dividends in fiscal 1965 consisted of three payments of 17½ cents and one of 15 cents, aggregating 67½ cents per share for the year. These payments totalled \$980,580. In fiscal 1964, cash dividends amounting to \$800,285 were paid, constituting three payments of 15 cents and one of 12½ cents equal to 57½ cents per share.

On July 21, 1965, the Board of Directors voted a 4% stock dividend, payable September 30, to stockholders of record August 13. The stock dividend had an equivalent cash value of \$1.04 per share, based on the closing price of the Company's stock on the New York Stock Exchange as of the day of declaration.

Aeroquip has paid cash dividends on its common stock for 19 consecutive fiscal years, and stock dividends in each of the last 10 fiscal years.

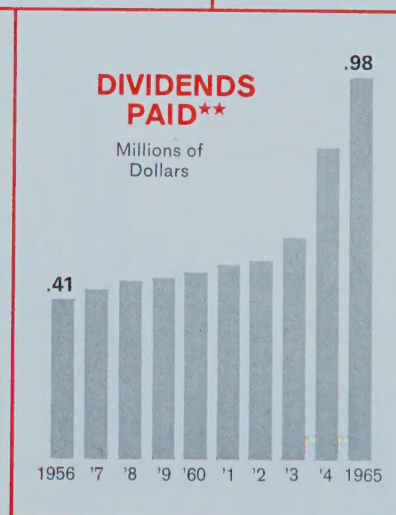
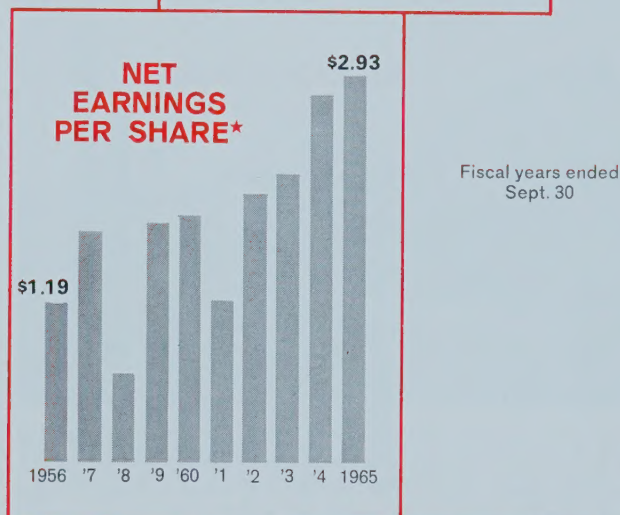
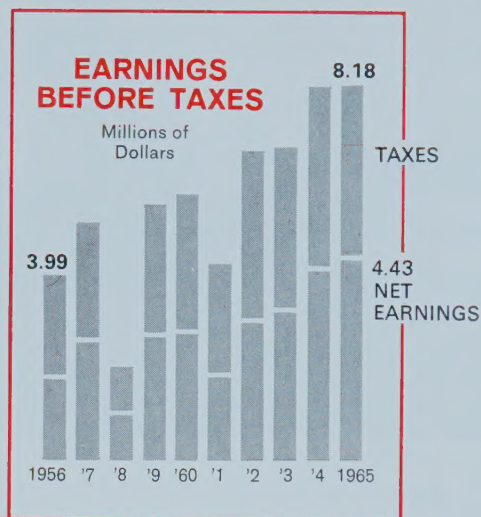
FINANCIAL CONDITION

On September 30, 1965, working capital was at a year-end peak, amounting to \$21,041,922. The current ratio was 2.54 to 1. At the end of fiscal 1964, working capital was \$20,695,833 with a ratio of 3.19 to 1.

CAPITAL EXPENDITURES

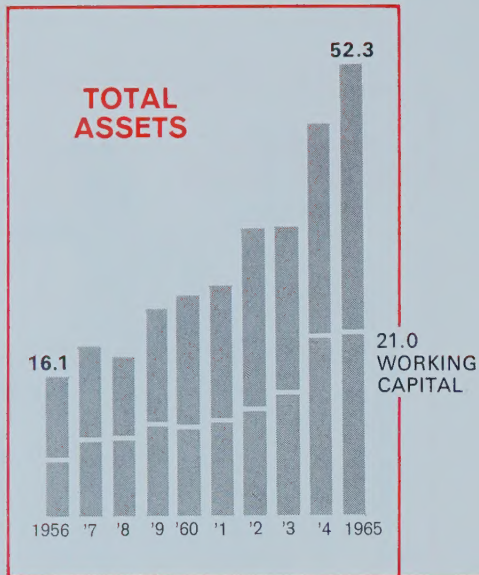
A total of \$4,069,596 was spent in the 1965 fiscal year for plant expansion, additional equipment, and the purchase of new product lines and facilities. In fiscal year 1964, the comparable figure was \$5,042,991, which included the purchase of the capital assets of the Republic Rubber Division for \$3,450,000.

As of the September 30, 1965 balance sheet, the Company had \$25,643,577 in land, buildings,

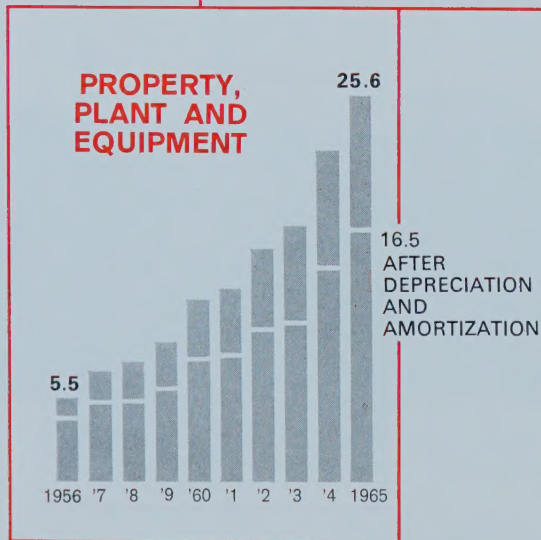
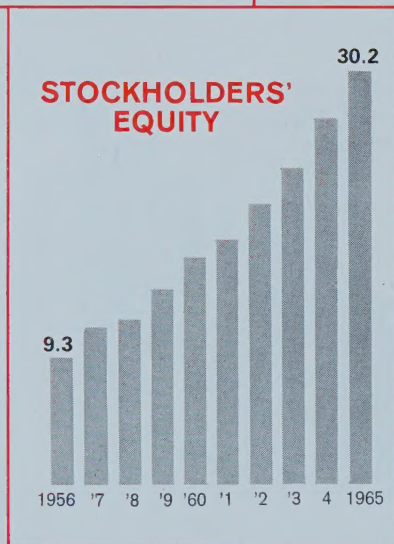


*Adjusted For Stock Dividends

**In addition, stock dividends were paid as follows: 5% in 1956, 1957, 1958; 3% in 1959; 4% in 1960; 2% in 1961; 5% in 1962; and 4% in 1963, 1964 and 1965.



Millions of Dollars
At end of fiscal year



machinery and equipment, valued at cost, of which land accounted for less than \$1,000,000.

INDUSTRIAL DIVISION

Sales to both original equipment manufacturers and distributors registered increases during the 1965 fiscal year. Noteworthy market gains were made in Aeroquip's air conditioning couplings, which are currently being used by the majority of the firms in the industry, and in the Company's crimped hose lines, which now represent a significant segment of the division's sales volume.

The acquisition in 1965 of Jackson Automatic Products Co. of Leslie, Michigan, formerly one of the Industrial Division's major suppliers, has been very helpful in reducing various production costs.

The completion of a 52,000 square foot expansion of the Van Wert, Ohio facility raised the plant's total area to more than 200,000 square feet.

AIRCRAFT DIVISION

In fiscal 1965, despite very pressing competition, the Aircraft Division was successful in maintaining sales and earnings at about the same levels as in the previous year.

In recent months there has been a decided upturn in the division's business and the backlog of orders indicates that this trend will be sustained for sometime to come.

Aeroquip's Space Craft system (specialized fittings, brazing techniques, machines and tools) is gaining wide acceptance in aerospace technology, manned aircraft, missile site equipment and nuclear plants. Cargo control products have also been experiencing increased activity in recent months.

MARMAN DIVISION

Greater market penetrations resulted in improved sales and earnings for the Marman Division in the 1965 fiscal year. Industrial markets continued to grow as a percentage of the total

business. Backlog of unfilled orders is presently at an all-time high.

The operations of Robot Manufacturing Corp. of San Diego, California, purchased in December 1964, have been integrated into the Marman Division. New orders and inquiries for the Robot product line of flanges have been on an upward trend.

REPUBLIC RUBBER DIVISION

In its first full fiscal year as part of the Aeroquip organization, the Republic Rubber Division registered a gratifying profit contribution. The addition of new production equipment and the introduction of improved manufacturing controls will result in further substantial improvements in productivity and earnings.

BARCO DIVISION

Increases in sales and earnings were registered by the division in fiscal 1965, and a continuation of this trend is expected. In particular, there has been an expanding demand for large diameter ball joints.

CANADIAN SUBSIDIARY

Although industrial business in Canada was sustained at a steady rate in fiscal 1965, there was a sharp decrease in aircraft volume, with the effect that both sales and earnings at Aeroquip (Canada) Ltd. showed a decline for the year. Nevertheless, management feels that the Company's Canadian operations will be back on an upward trend in fiscal 1966. This confidence is



NEW IN 1965 . . . (Top) The 10,000 square foot Leslie Plant of Aeroquip's Industrial Division houses the facilities which were purchased in March, 1965, when the Company acquired the Jackson Automatic Products Co. (Bottom) Now part of Aeroquip's Marman Division is this 26,500 square foot plant of Robot Manufacturing Corp. of San Diego, California, which was purchased in December, 1964.

Flow of Funds—Year Ended September 30

FUNDS CAME FROM:

	1965	1964
Net Earnings	\$4,428,943	\$ 4,186,671
Depreciation	1,693,950	1,413,140
Additions to Long-Term Debt—Net	—0—	7,533,200
Exercise of Stock Options	70,260	135,794
	<u>\$6,193,153</u>	<u>\$13,268,805</u>

FUNDS WERE USED FOR:

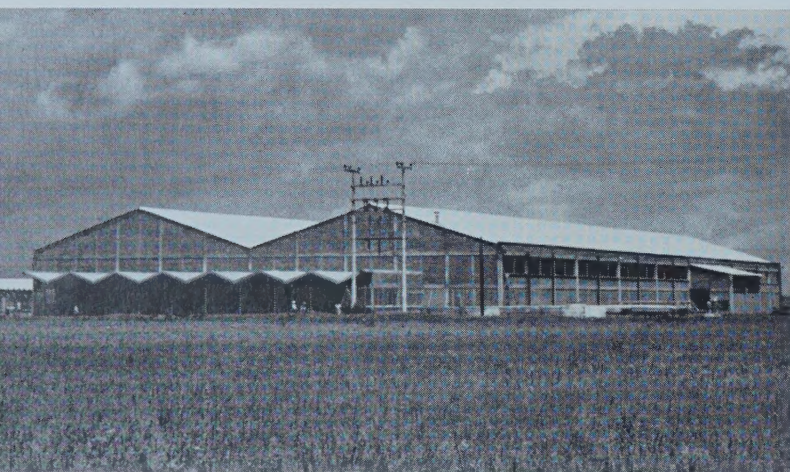
	1965	1964
Dividends	\$ 980,580	\$ 800,285
Capital Expenditures — Net	4,087,983	5,123,083
Decrease in Long-Term Debt—Net	764,203	—0—
Other Assets	14,298	629,314
	<u>\$5,847,064</u>	<u>\$ 6,552,682</u>
Added to Working Capital	346,089	6,716,123
	<u>\$6,193,153</u>	<u>\$13,268,805</u>

evidenced by the recent completion of a plant expansion program that added 23,000 square feet to the Toronto facilities.

GERMAN SUBSIDIARY

Sales and earnings showed gains in the 1965 fiscal year. This reflects the continuing strength of the German economy, even though its rate of growth has slowed down somewhat.

Production capacity of the hose plant in Hann. Muenden has been enlarged by the installation of new machinery and the construction of additional space is progressing.



NEW IN 1965 . . . The new 60,000 square foot plant of the Company's affiliate Aeroquip Mexicana, S. A., in Toluca, Mexico, began operations in April, 1965.

At the Baden-Baden plant, screw machine operations have been expanded and additional machines are on order to satisfy the increased demand.

FOREIGN BUSINESS

In addition to Company-owned plants in Canada and Germany, and sales made by licensees, overseas distributors and through direct export contacts, Aeroquip participates in foreign markets through its ownership of interests in several associated companies located in England, Mexico, Brazil and Japan.

Export sales and sales of Aeroquip's foreign subsidiaries and affiliates rose 15% in 1965. This includes sales of Aeroquip (Canada) Ltd., Aeroquip G.m.b.H. in Germany, Aeroquip Mexicana, S.A., and Aeroquip Sulamericana, S.A. in Brazil.

Sales of Aeroquip's foreign licensees amounted to approximately \$11,000,000 in fiscal 1965, about the same as in fiscal 1964.

RENEGOTIATION

Certain of the Company's sales relate to contracts that are subject to renegotiation by the Government. These renegotiable sales have been reviewed and cleared through the 1962 fiscal year, without any refunds being required.

With respect to future renegotiations, management believes that the pricing policy being applied to such business is consistently fair and that no refunds will be required in the future.

SIMPLIFIED BALANCE SHEET—At September 30, 1965

Assets

Cash and Temporary Cash Investments . .	\$ 1,264,000
Amounts Due from Customers	12,811,000
Products and Materials on Hand	20,452,000
Property, Plant, & Equipment, less wear and tear	16,499,000
All Other Assets	1,281,000
	<u>\$52,307,000</u>

Liabilities

Amounts Due for payment during the 1966 fiscal year	\$13,654,000
Long-Term Debt	8,444,000
To Stockholders for their investment in the business	15,711,000
To Stockholders for earnings retained in the business	14,498,000
	<u>\$52,307,000</u>

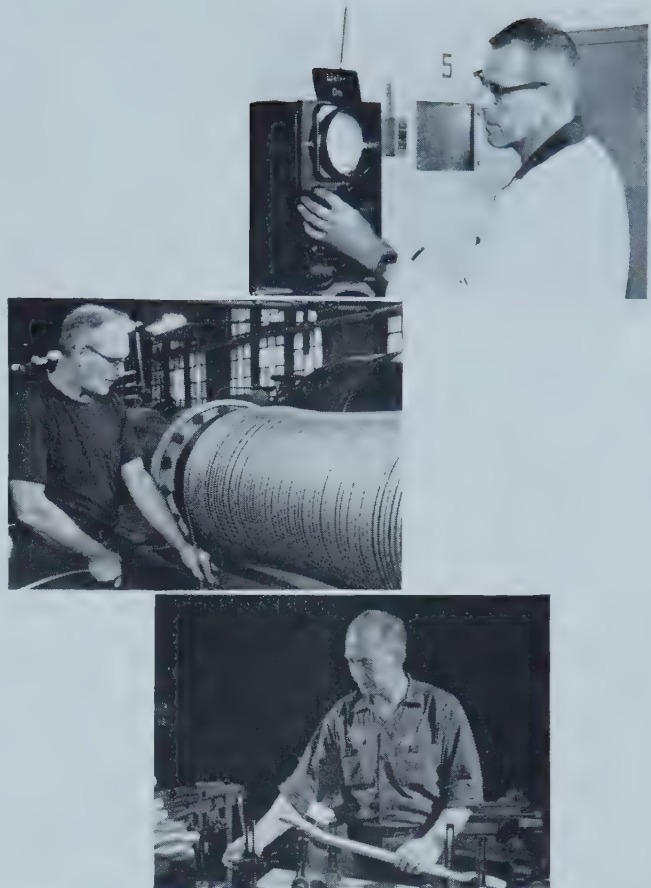
EMPLOYEES

There were 3,895 employees working for Aeroquip as of September 30, 1965. In fiscal 1965, wages and salaries totalled \$25,351,755. The Company also paid out \$3,244,335 for employee benefits equal to another 13% in compensation.

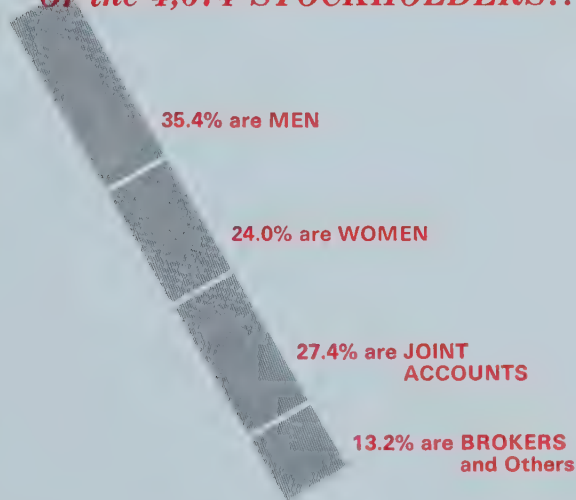
Aeroquip provides a wide range of extra benefits for eligible employees and their families. For example, there is a retirement program consisting of Pension and Profit-Sharing Plans, and various insurance coverages such as life, sickness, accident, hospitalization and surgical. The major part of the cost of these benefits is paid by Aeroquip.

All labor union contracts which expired in fiscal 1965 were satisfactorily renewed.

Throughout the year, job training programs were conducted for employees seeking opportunities to improve their skills and to advance to higher positions.



Of the 4,674 STOCKHOLDERS.....



A recent stockholder analysis shows that Aeroquip has co-owners in 49 states, the District of Columbia and 5 foreign countries. The states having the most stockholders are Michigan, New York, Ohio, Illinois, Pennsylvania and California.

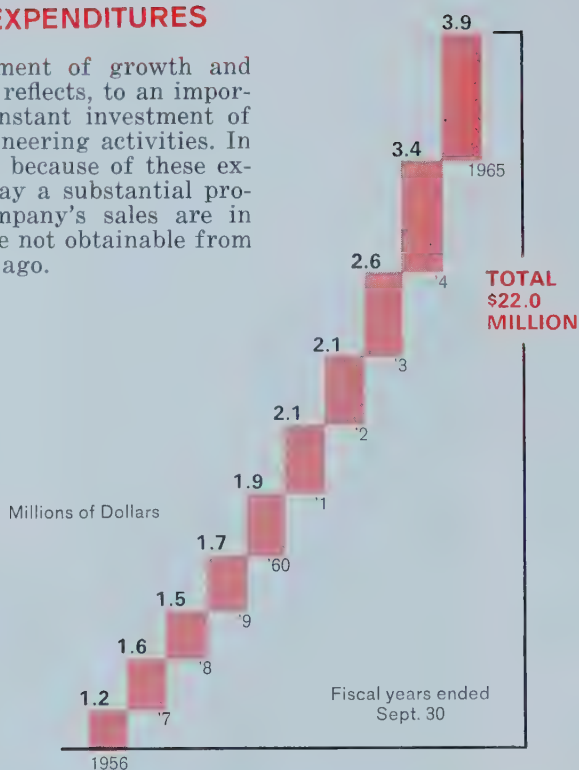
There are 4,674 registered stockholders, plus an estimated 2,000 beneficial co-owners, whose investments are represented by the holdings of brokerage firms.

63% of the registered stockholders own 100 shares or less, 32% are holders of 101 to 500 shares, and 5% own more than 500 shares.

As noted in the accompanying chart, 13% of the stockholders are "brokers, investment companies, fiduciaries, etc." This group, however, holds 43% of the shares outstanding.

ENGINEERING EXPENDITURES

Aeroquip's achievement of growth and industry leadership reflects, to an important degree, the constant investment of large sums for engineering activities. In large measure, it is because of these expenditures that today a substantial proportion of the Company's sales are in products which were not obtainable from Aeroquip five years ago.



AEROQUIP'S 40 LARGEST CUSTOMERS (Original Equipment Manufacturers)

These firms, which are among the thousands served by Aeroquip, represent about 20% of the Company's volume of business. In the 1965 fiscal year, no single customer accounted for more than 1½% of Aeroquip's total sales.

Addison Products	Grumman Aircraft
Allis-Chalmers	Gustin Bacon Mfg. Co.
Aerojet General	International Harvester
Bell Helicopter	Ling Temco Vought (LTV)
Boeing	Lockheed Aircraft
Canadair	Mack Trucks
Canadian Kenworth Ltd.	Martin Marietta Corp.
Carrier Corporation	McCord Corporation
Chrysler Airtemp	McDonnell Aircraft
Clark Equipment	North American
John Deere	Oliver Corporation
Fedders Co.	Peterbilt
DeHavilland Aircraft of Canada Ltd.	Pettibone-Mulliken
Detroit Diesel Div., General Motors	Raytheon
Douglas Aircraft	Rohr Aircraft
General Dynamics	Thermo King
Electromotive Div., General Motors	Trane Co.
Euclid Div., General Motors	United Aircraft
General Electric	Vertol
GMC Truck & Coach	Warner & Swasey

Diversity of.... PRODUCTS & MA

(Both C
Replac
Goods

Hose and Fittings: Low Pressure

Medium Pressure

High Pressure

Extra and Super High Pressure

Engine

Teflon

Suction and Discharge

Petroleum Drilling and Transfe

Marine

Refrigerant

Adapters, Tube Fittings and Space-Craft Fittings

Couplings: Self-Sealing, Push-Pull, etc.

Refrigerant (Self-Sealing and One-Sho

Cargo Transfer

Flexmaster Pipe and Tube

V-Band

Clamps: Hose and Band

Clamps and Straps, Support

Flanges, Pipe and Tube

Joints: Conoseal

Ball

Rotary and Swivel

Flexible Duct Assemblies

Elbow and Tubing Assemblies

Cargo Control Systems

Ratchet Buckles and Straps

Track and Fittings

Cargo Release Hooks

Automatic Fueling Units

Steam Heat Connectors

Speed Recorders

Conveyor, Elevator and Transmission Belting

Sheet Packing

Molded Rubber and Lathe Cut Products

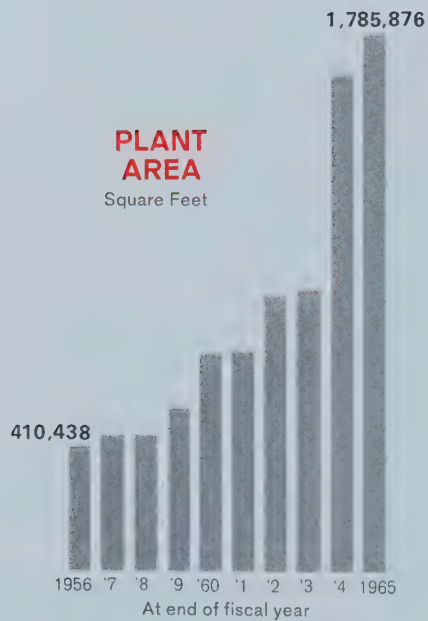
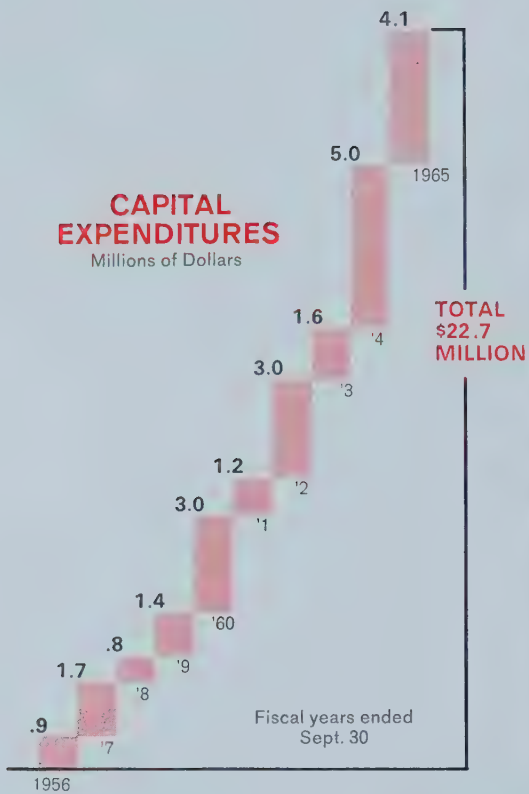
Rubber Covered Rolls

Extruded Plastic Products

Oil Seals (under development)

Omniseals

Diversity of..... FACILITIES & DISTRIBUTION





★ **PLANTS**

Industrial Division

Van Wert, Ohio
Burbank, California
Dallas, Texas
Portland, Oregon
Cranbury, New Jersey
Atlanta, Georgia
Leslie, Michigan

Aircraft Division

Jackson, Michigan (2)
Burbank, California
Dallas, Texas

Marman Division

Los Angeles, California
San Diego, California

Barco Division

Barrington, Illinois

Republic Rubber Division

Youngstown, Ohio
Houston, Texas

Aeroquip (Canada) Ltd.

Toronto, Ontario
Montreal, Quebec
Vancouver, B. C.
Winnipeg, Manitoba

Aeroquip G.m.b.H.

Baden-Baden, Germany
Hann. Muenden, Germany

■ **LICENSEES**

Melbourne, Australia
Birmingham, England
Paris, France
Torino, Italy
Tokyo, Japan
Glasgow, Scotland
Palamos, Spain
Sevilla, Spain

□ **ASSOCIATED COMPANIES**

Aeroquip Mexicana, S. A.
Toluca, Mexico
Aeroquip Sulamericana Industria
e Comercio, S. A.
Rio de Janeiro, Brazil
Hy-Flu Components, Ltd.
Calcutta, India
Edward Yates & Sons, Ltd.
Marple, Cheshire, England
Toyo Joint Co., Ltd.
Tokyo, Japan

● **FOREIGN DISTRIBUTORS**

In 82 cities around
the world.

BARCO
Stainless Steel
Plane Swivel Joints

• CORROSION-RESISTANT • EASY TO INSTALL • COMPACT DESIGN • HIGH STRENGTH • LONG LIFE • NO MAINTENANCE • NO OILING • NO PAINTING • NO GREASING • NO LUBRICATING • NO HOT TAP DETAIL

Aeroquip
BARCO DIVISION
REPUBLIC RUBBER DIVISION
JACKSON, MICHIGAN 48469

Hook-Up with Aeroquip

for automatic cargo handling

for reliable hose line replacement

Aeroquip
THE LIFELINE OF YOUR AIRCRAFT
AEROQUIP CORPORATION JACKSON, MICHIGAN

SECOND DECK

With NEW High-Strength Adjustable Aeroquip Aluminum Shoring Beams

FOR EXTRA LOADS

Aeroquip
AEROQUIP CORPORATION JACKSON, MICHIGAN 48469

Static testing for NERVA proves reliability of Marman All-Metal CONOSEAL Joints

... 275 advertisements inserted 836 times in 125 U.S., Canadian and foreign magazines, newspapers and trade publications;

... distribution by the Company and its distributors of approximately 3,800,000 catalogs and promotion pieces, 900,000 direct mail folders and 42,000 calendars;

... use of telephone directory advertising, motion picture films, slide films, chart displays, signs and trade show exhibits for sales promotion purposes;

... more than 37,000 copies of each issue of Aeroquip's magazine, The Flying "A", are circulated the world over to customers, suppliers, distributors, stockholders, employees and others.

Aeroquip
MARMAN DIVISION

TURN ON THE STEAM!
...WITH REPUBLIC STEAM HOSE FOR ALL-PLANT USE

Aeroquip
REPUBLIC RUBBER DIVISION
JACKSON, MICHIGAN 48469

Pre-charging with Aeroquip Refrigerant Couplings helps Luxaire/Moncrief increase sales 44%

Aeroquip
AEROQUIP CORPORATION JACKSON, MICHIGAN 48469

TRANSFER AGENTS

Irving Trust Company
New York, N. Y.

National Bank of Detroit
Detroit, Michigan

LEGAL COUNSEL

McKone, Badgley,
Domke & Kline
Jackson, Michigan

REGISTRARS

Manufacturers Hanover
Trust Company
New York, N. Y.

Detroit Bank & Trust
Company
Detroit, Michigan

TRADED

New York Stock Exchange

Financial Statements

ARTHUR ANDERSEN & Co.

To the Stockholders and Board of Directors,

AEROQUIP CORPORATION, *Jackson, Michigan.*

We have examined the consolidated balance sheet of AEROQUIP CORPORATION (a Michigan corporation) AND SUBSIDIARIES as of September 30, 1965, and the related statements of consolidated earnings and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and surplus present fairly the financial position of Aeroquip Corporation and Subsidiaries as of September 30, 1965, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Detroit, Michigan,
November 16, 1965.

Arthur Andersen & Co.

Comparative Statements of Consolidated EARNINGS

	<i>Year ended September 30,</i>	1965	1964	1963
Net sales		\$85,867,449	\$77,257,179	\$62,006,295
Cost of products sold		65,841,758	58,576,829	46,757,053
		\$20,025,691	\$18,680,350	\$15,249,242
Selling and administrative expenses		11,879,571	10,526,399	8,492,283
		\$ 8,146,120	\$ 8,153,951	\$ 6,756,959
Royalties and miscellaneous income		592,241	401,579	326,404
		\$ 8,738,361	\$ 8,555,530	\$ 7,083,363
Interest on borrowed money and other deductions		559,418	418,859	271,524
EARNINGS BEFORE TAXES ON INCOME		\$ 8,178,943	\$ 8,136,671	\$ 6,811,839
Provision for U. S. and foreign taxes on income		3,750,000	3,950,000	3,550,000
NET EARNINGS		\$ 4,428,943	\$ 4,186,671	\$ 3,261,839
Depreciation and amortization		\$ 1,693,950	\$ 1,413,140	\$ 1,110,836
Dividends paid in cash		\$ 980,580	\$ 800,285	\$ 567,527
Earnings retained for use in the business		\$ 3,448,363	\$ 3,386,386	\$ 2,694,312
Earnings per share of common stock (Note 5)		\$ 2.93	\$ 2.77	\$ 2.17
*Cash dividends per share of common stock (Note 5)		\$ 0.65	\$ 0.53	\$ 0.38

* Owing to changes in the number of shares outstanding during the fiscal years, the per share common dividend rate differs slightly from dividends paid per share.

In addition, stock dividends were paid as follows:

5% in 1956, 1957, 1958; 3% in 1959; 4% in 1960; 2% in 1961; 5% in 1962; and 4% in 1963, 1964, and 1965.

AEROQUIP CORPORATION *and Subsidiaries*

1962	1961	1960	1959	1958	1957	1956
\$57,511,615	\$48,036,886	\$52,325,461	\$48,232,437	\$35,686,930	\$42,793,777	\$33,347,747
42,376,719	36,147,145	38,314,162	35,170,581	27,569,976	31,415,273	24,874,442
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$15,134,896	\$11,889,741	\$14,011,299	\$13,061,856	\$ 8,116,954	\$11,378,504	\$ 8,473,305
8,511,234	7,617,802	8,175,667	7,527,117	6,080,185	6,163,102	4,451,242
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 6,623,662	\$ 4,271,939	\$ 5,835,632	\$ 5,534,739	\$ 2,036,769	\$ 5,215,402	\$ 4,022,063
294,601	278,850	197,124	172,381	140,504	96,249	104,986
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 6,918,263	\$ 4,550,789	\$ 6,032,756	\$ 5,707,120	\$ 2,177,273	\$ 5,311,651	\$ 4,127,049
174,619	285,494	269,677	156,028	180,815	123,045	133,764
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 6,743,644	\$ 4,265,295	\$ 5,763,079	\$ 5,551,092	\$ 1,996,458	\$ 5,188,606	\$ 3,993,285
3,710,000	2,450,798	3,001,190	2,856,233	1,013,735	2,601,830	2,218,866
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 3,033,644	\$ 1,814,497	\$ 2,761,889	\$ 2,694,859	\$ 982,723	\$ 2,586,776	\$ 1,774,419
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 944,357	\$ 944,552	\$ 825,339	\$ 713,379	\$ 632,393	\$ 581,759	\$ 531,770
\$ 507,992	\$ 497,167	\$ 477,654	\$ 462,867	\$ 457,268	\$ 435,494	\$ 409,876
\$ 2,525,652	\$ 1,317,330	\$ 2,284,235	\$ 2,231,992	\$ 525,455	\$ 2,151,282	\$ 1,364,543
\$ 2.02	\$ 1.21	\$ 1.85	\$ 1.80	\$ 0.66	\$ 1.73	\$ 1.19
\$ 0.34	\$ 0.33	\$ 0.32	\$ 0.31	\$ 0.31	\$ 0.29	\$ 0.27

See Notes to Financial Statements on Inner Back Cover



Comparative Consolidated BALANCE SHEETS

	<i>As of September 30,</i> 1965	1964	1963
Assets			
CURRENT ASSETS			
Cash and temporary cash investments	\$ 1,264,195	\$ 2,826,885	\$ 1,094,270
Accounts receivable (less allowance of \$155,000 at September 30, 1965)	12,811,405	9,342,603	7,569,781
Inventories at lower of cost or market	20,451,376	17,801,434	13,788,782
Prepaid expenses	168,844	196,668	106,223
TOTAL CURRENT ASSETS	\$34,695,820	\$30,167,590	\$22,559,056
PROPERTY, PLANT AND EQUIPMENT			
Land, buildings, machinery and equipment, at cost	\$25,643,577	\$21,870,218	\$16,835,154
Less accumulated provisions for depreciation and amortization ..	9,144,359	7,765,033	6,439,911
	\$16,499,218	\$14,105,185	\$10,395,243
OTHER ASSETS (Note 1)	1,112,138	1,097,840	468,526
TRADE-MARKS, PATENTS AND GOODWILL	1	1	1
	\$52,307,177	\$45,370,616	\$33,422,826
Liabilities and Stockholders' Equity			
CURRENT LIABILITIES			
Notes payable to banks	\$ 928,226	\$ 85,768	\$ 535,000
Accounts payable and accrued expenses	8,931,325	6,151,367	5,466,290
U.S. and Foreign taxes on income	2,870,547	2,466,907	2,154,358
Current maturities on long-term debt	923,800	767,715	423,698
TOTAL CURRENT LIABILITIES	\$13,653,898	\$ 9,471,757	\$ 8,579,346
LONG-TERM DEBT (Note 2)	8,444,025	9,208,228	1,675,028
STOCKHOLDERS' EQUITY			
Common stock (Notes 3 and 4)	\$ 1,513,215	\$ 1,451,772	\$ 1,389,765
Other paid-in capital (Capital surplus)	14,198,302	12,640,070	10,598,030
Earnings retained for use in the business (Earned surplus) (Note 2)	14,497,737	12,598,789	11,180,657
TOTAL STOCKHOLDERS' EQUITY	\$30,209,254	\$26,690,631	\$23,168,452
	\$52,307,177	\$45,370,616	\$33,422,826
Working capital	\$21,041,922	\$20,695,833	\$13,979,710
Current ratio	2.54 to 1	3.19 to 1	2.63 to 1
Book value per share (Note 5)	\$ 19.96	\$ 17.68	\$ 15.41

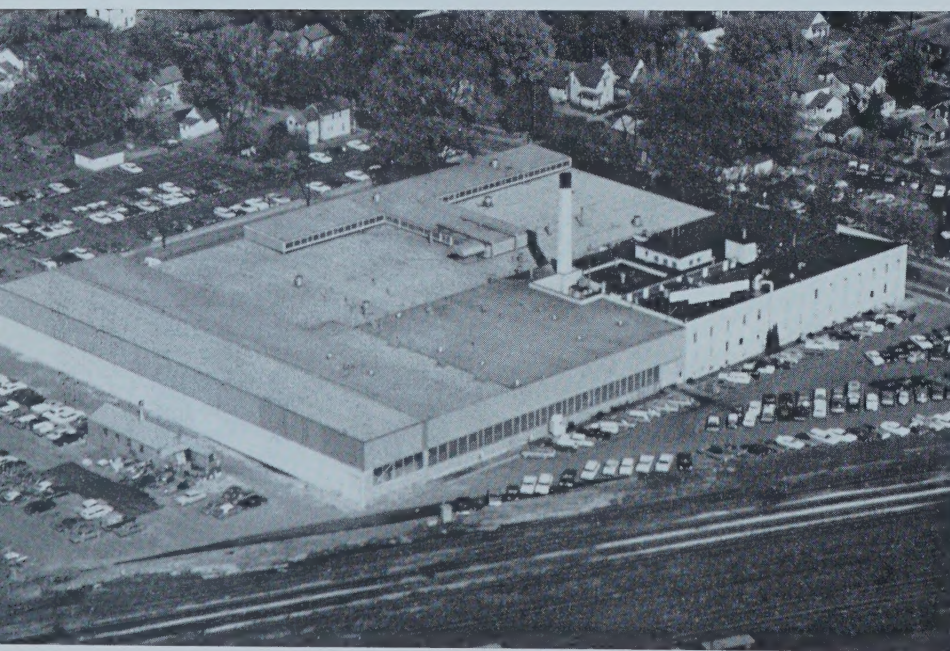
AEROQUIP CORPORATION *and Subsidiaries*

1962	1961	1960	1959	1958	1957	1956
\$ 1,218,228	\$ 1,787,243	\$ 852,972	\$ 1,164,051	\$ 984,761	\$ 1,057,563	\$ 1,002,164
6,680,929	5,744,204	5,261,205	6,352,765	4,525,172	4,608,286	3,868,425
14,650,078	10,383,223	10,751,754	10,112,966	7,244,515	8,627,569	6,715,669
101,697	129,929	90,787	74,544	77,381	74,030	248,630
<u>\$22,650,932</u>	<u>\$18,044,599</u>	<u>\$16,956,718</u>	<u>\$17,704,326</u>	<u>\$12,831,829</u>	<u>\$14,367,448</u>	<u>\$11,834,888</u>
\$15,353,524	\$12,742,062	\$11,948,665	\$ 9,152,724	\$ 7,881,857	\$ 7,262,381	\$ 5,453,781
5,328,587	4,600,261	3,865,554	3,120,985	2,596,206	2,044,997	1,288,902
<u>\$10,024,937</u>	<u>\$ 8,141,801</u>	<u>\$ 8,083,111</u>	<u>\$ 6,031,739</u>	<u>\$ 5,285,651</u>	<u>\$ 5,217,384</u>	<u>\$ 4,164,879</u>
505,724	535,861	528,430	276,025	232,478	183,607	145,319
1	1	1	1	1	1	1
<u>\$33,181,594</u>	<u>\$26,722,262</u>	<u>\$25,568,260</u>	<u>\$24,012,091</u>	<u>\$18,349,959</u>	<u>\$19,768,440</u>	<u>\$16,145,087</u>
\$ 2,150,000	\$ 219,104	\$ 186,691	\$ —0—	\$ —0—	\$ —0—	\$ 650,000
5,407,878	4,693,094	4,181,600	4,749,238	3,052,941	3,682,938	2,495,101
2,613,070	1,790,821	1,934,293	2,520,482	734,329	1,648,268	1,914,034
407,863	611,900	600,000	150,000	400,000	400,000	400,000
<u>\$10,578,811</u>	<u>\$ 7,314,919</u>	<u>\$ 6,902,584</u>	<u>\$ 7,419,720</u>	<u>\$ 4,187,270</u>	<u>\$ 5,731,206</u>	<u>\$ 5,459,135</u>
2,148,726	1,523,225	2,120,450	2,350,000	2,200,000	2,600,000	1,400,000
\$ 1,335,333	\$ 1,269,646	\$ 1,242,919	\$ 1,194,135	\$ 1,156,944	\$ 1,101,852	\$ 1,049,383
9,269,353	7,685,181	6,936,329	5,610,054	4,521,344	3,320,338	2,302,439
9,849,371	8,929,291	8,365,978	7,438,182	6,284,401	7,015,044	5,934,130
<u>\$20,454,057</u>	<u>\$17,884,118</u>	<u>\$16,545,226</u>	<u>\$14,242,371</u>	<u>\$11,962,689</u>	<u>\$11,437,234</u>	<u>\$ 9,285,952</u>
<u>\$33,181,594</u>	<u>\$26,722,262</u>	<u>\$25,568,260</u>	<u>\$24,012,091</u>	<u>\$18,349,959</u>	<u>\$19,768,440</u>	<u>\$16,145,087</u>
\$12,072,121	\$10,729,680	\$10,054,134	\$10,284,606	\$ 8,644,559	\$ 8,636,242	\$ 6,375,753
2.14 to 1	2.47 to 1	2.46 to 1	2.39 to 1	3.06 to 1	2.51 to 1	2.17 to 1
\$ 13.62	\$ 11.93	\$ 11.06	\$ 9.53	\$ 8.02	\$ 7.67	\$ 6.23

See Notes to Financial Statements on Inner Back Cover

Comparative Statements of Consolidated SURPLUS

	Year ended September 30,	1965	1964
Capital Surplus			
Balance at beginning of year.....		\$12,640,070	\$10,598,030
Excess of quoted market prices over the par value (\$1.00) of common stock issued (58,194 shares in 1965 and 55,837 shares in 1964) as 4% stock dividends.....		1,491,221	1,912,416
Excess of option prices over the par value (\$1.00) of common stock issued under the Stock Option Plan (3,249 shares in 1965 and 6,170 shares in 1964) (Note 4).....		67,011	129,624
Balance at end of year.....		<u>\$14,198,302</u>	<u>\$12,640,070</u>
Earned Surplus			
Balance at beginning of year.....		\$12,598,789	\$11,180,657
Net earnings for the year.....		4,428,943	4,186,671
		<u>\$17,027,732</u>	<u>\$15,367,328</u>
Dividends paid per share of common stock:			
Cash—\$0.675 in 1965; \$0.575 in 1964.....		\$ 980,580	\$ 800,285
Stock—4% in 1965 and 1964.....		1,549,415	1,968,254
		<u>\$ 2,529,995</u>	<u>\$ 2,768,539</u>
Balance at end of year (Note 2).....		<u>\$14,497,737</u>	<u>\$12,598,789</u>



Aeroquip in the early days (above) consisted of a modest 65,000 square foot plant in Jackson, Michigan. Today, the Company's main Jackson facility (left) provides 240,000 square feet of floor space. In the aggregate, Aeroquip's 17 facilities in the United States, Canada and Germany presently total 1,785,876 square feet of plant area.

NOTES to Financial Statements

- (1) Includes the cost (\$562,392) of minority interests in four foreign affiliates and \$62,094 indirectly advanced to officers under a split-dollar insurance program.
- (2) Long-term debt obligations of the Company and its wholly-owned German subsidiary are as follows:

	<i>Principal Amount</i>	<i>Current Maturities</i>	<i>Long-Term</i>
Parent Company:			
4¾% promissory notes to a group of banks, payable in \$180,000 quarterly installments to January 15, 1971.....	\$3,960,000	\$720,000	\$3,240,000
5¼% promissory note to an insurance company, payable in \$150,000 quarterly installments beginning April 15, 1971.....	4,500,000	—0—	4,500,000
Non-interest bearing promissory notes issued in connection with the purchase of assets of Barco Manufacturing Co., payable in \$50,000 quarterly installments. Next installment due January 1, 1966...	400,000	150,000	250,000
Parent Company Total.....	\$8,860,000	\$870,000	\$7,990,000
German Subsidiary:			
Notes to German banks at an effective interest cost of approximately 6%, payable in quarterly installments from December 15, 1965 through December 15, 1974.....	507,825	53,800	454,025
Consolidated Total	\$9,367,825	\$923,800	\$8,444,025

The Loan Agreements with the banks and the insurance company impose certain limits on the payment of cash dividends and require the maintenance of a specified minimum working capital. At September 30, 1965, the Company's working capital was \$5,920,970 in excess of this minimum requirement and the same amount was unrestricted for the payment of cash dividends.

- (3) At September 30, 1965, there were 2,000,000 shares of common stock, \$1.00 par value, authorized of which 1,513,215 shares were issued and outstanding.
- (4) Under the Common Stock Option Plan approved by the shareholders in January, 1959, 30,721 shares of common stock were reserved as of September 30, 1965 for issuance to officers and employees at quoted market prices on the date of grant. Changes in options during the year were as follows:

	<i>Number of Shares</i>	<i>Aggregate Option Amount</i>
Outstanding, October 1, 1964.....	33,353	\$826,646
Add (deduct):		
Granted during the year.....	—0—	—0—
Exercised during the year.....	(3,249)	(70,260)
Forfeited during the year.....	(1,319)	(35,465)
Outstanding, September 30, 1965.....	28,785	\$720,921
Balance not granted	1,936	
Total Reserved	30,721	

- (5) Computed on the basis of the shares outstanding for the years as indicated below—
1965: 1,513,215; 1964: 1,509,842; 1963: 1,503,168; 1962: 1,502,068; 1961: 1,499,587; 1960: 1,495,507; 1959: 1,494,281; 1956 through 1958: 1,491,178.
- (6) During 1965, approximately \$291,000 was charged to expense for contributions to pension plans for various groups of employees. Unfunded past service costs as of the anniversary dates of the various plans are estimated by independent actuaries to be \$3,900,000.
- (7) On January 14, 1965, a Justice Department anti-trust indictment was returned by a Federal grand jury in Detroit, Michigan, alleging that various companies in the hose-coupling industry, including Aeroquip Corporation, have engaged in an unlawful combination in restraint of trade in that they sought to secure a favorable price classification from their suppliers for the purchase of hydraulic hose. The Company denies any violation of the anti-trust laws and a plea of not guilty has been entered. In the opinion of management and counsel for the Company, the charges made in the indictment are without foundation.

Aeroquip



AEROQUIP CORPORATION

JACKSON, MICHIGAN